
Great Bedwyn Parish Council

Internal Audit Report 2016-17

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Background and Scope

The Accounts and Audit Arrangements introduced from 1st April 2001 require all Parish Councils to implement an independent internal audit examination of their Accounts and accounting processes annually. The internal auditor has then to provide the Council with a report covering a number of key areas associated with the transactions and management of the Council's affairs. The Council implemented this process at the outset appointing Auditing Solutions Ltd: we have provided the service continuously since that date apart from 2015-16.

Internal Audit Approach

In undertaking our review this year, we have, as in prior years, had regard to the materiality of transactions and their susceptibility to potential misrecording or misrepresentation in the year-end Statement of Accounts. However, in view of the relatively low volume of annual transactions and the level of errors in the records identified previously, we have again undertaken direct substantive testing of all receipts and payments for the financial year, verifying detail to such underlying documentation as is available.

This report summarises our conclusions on each of the key areas set out in the Internal Audit Report that is required under the Annual Return arrangements. Issues requiring attention have been further summarised into an Action Plan at the end of the report. We ask that the Clerk and members consider these recommendations and take appropriate steps to ensure their implementation.

Overall Conclusion

We are pleased to acknowledge the significant improvements to the accounting arrangements implemented since our previous report in 2014-15 and also to conclude that the Council now operates effective control systems that help ensure that transactions are accurately reflected in the Statement of Accounts / Annual Return. We have noted the existence of a few members' concerns, as expressed and reported in the minutes, over financial controls in the early stages of the financial year and are pleased to note the positive actions taken to improve financial reporting following appointment of a new clerk. We take this opportunity to thank her for the very clear manner in which the records have been presented for our review this year, which has simplified the process.

On the basis of work undertaken on the Council's records this year, we have signed off the Internal Audit Certificate in the Annual Return assigning positive assurances in each area.

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Detailed Report

Maintenance of Accounting Records & Bank Reconciliations

The new Clerk has recorded the Council's accounting transactions using an Excel workbook with separate worksheets used to record receipts and payments. Two bank accounts are in use with TSB with transactions on each account recorded in the appropriate cashbook throughout the year: we are pleased to acknowledge the significant improvement in the cashbook records now being maintained with our previous concerns now satisfactorily resolved.

We are also pleased to note that the cashbooks contain appropriate analysis to assist in production of both a detailed year-end Statement of Accounts and the Annual Return information at Section 2, together with periodic budget performance information for presentation to members.

We have ensured the accurate recording of the 2015-16 closing cashbook balances as opening entries for 2016-17.

In view of the relatively low volume of annual transactions, we have checked and agreed detail of all cashbook entries to bank statements for the year, also verifying the detail in the year-end bank reconciliation: we note the preparation of periodic bank reconciliations during the year, which are routinely presented to Council.

Conclusions

We are pleased to report and record that no issues have been identified in this area warranting formal comment or recommendation and thank the new Clerk for the manner in which the records are being maintained.

Review of Corporate Governance

Our objective here is to ensure that the Council has a robust regulatory framework in place that Council and, where applicable, Committee meetings are conducted in accordance with the adopted Standing Orders and that, as far as we are able to ascertain, no actions of a potentially unlawful nature have been or are being considered for implementation. We also aim to ensure that appropriate policies, procedures and protocols are in place to prevent and provide a reasonable assurance of the detection of any fraudulent or corrupt activity.

We are pleased to note that Standing Orders (SOs) and Financial Regulations (FRs) have been subjected to further review and re-adoption (by the Finance Committee) in November 2016. Whilst they are considered reasonable for a Council the size of Great Bedwyn, we wish to draw the Clerk and members' attention to a relatively recent (2016) revision to the NALC model FRs. These primarily take account of the repeal of Section 150(5) of the 1972 Act relating to the requirement for two members to sign all payable orders (provided appropriate compensating controls are in place), together with the change in EU legislation and Public Contracts

Regulations specifically in relation to publishing of intended contract detail in the Government's Contract Finder website where the value is anticipated to exceed £25,000.

Whilst we acknowledge that the Council is probably unlikely to be affected by this legislation, we wish to draw it to the attention of the Clerk and members: we note that the recently adopted SOs and FRs refer to a limit of £10,000 above which formal tenders are required and consider that to be an appropriate value for Great Bedwyn. NALC has also issued a raft of guidance on procurement consequent on the above legislative changes: in order to assist the Clerk and Council, we have provided the Clerk with electronic copies of that documentation, together with the latest NALC model FRs.

We have reviewed the Council's and Finance Committee minutes for meetings held in the financial year to determine whether or not any issues exist or may be developing that might have an adverse effect on the Council's future financial stability, whilst also ensuring that no decisions have been made or are being considered that might result in ultra vires expenditure being incurred.

We thank the Chairman for completing our Governance Questionnaire, which assists us in determining the effectiveness of the Council's control arrangements.

Conclusions and recommendation

We are pleased to report that no significant issues arise in this area currently, although we suggest that, when next reviewed, the Standing Orders and Financial Regulations should be brought more closely into line with the latest NALC templates. We shall continue to monitor the Council's approach to governance at future years' audits, assuming we are reappointed.

R1. The Council should review Standing Orders and Financial Regulations in due course, ensuring that they more closely reflect the NALC model documents and take account of relatively recent legislative changes.

Review of Payments and VAT

Given the relatively low volume of payments during the year, we have checked detail of all to ensure that the following criteria have been met: -

- Payments were supported by a trade invoice or acknowledgement of receipt;
- VAT has been calculated correctly and is recovered at appropriate intervals.
- The Council has approved each payment.
- Payments have been correctly analysed in preparation of the year-end Statement of Accounts.
- Section 137 payments have been identified in the cashbook and are within the Council's spending limit.

In reviewing the responses to our Governance Questionnaire, we duly note the controls in place over the processing of trader invoices and approval for release of payments with no significant concerns identified. That said, we note that in the early stages of the year a suitably designed certification stamp was in use identifying the payment date, initials of two members authorising payments, cheque number and approving minute reference. We note that later in the financial year, use of the stamp has ceased, although the same detail continues to be recorded on invoices.

Conclusions and recommendations

We are pleased to report that all payments in the year are appropriately supported by either a trade invoice or till receipt, that VAT has been identified, wherever applicable, for recovery from HMRC. We have noted one or two areas where the analysis of the expenses incurred in the cashbook appeared dubious and have advised the Clerk accordingly in order that she may check and, if appropriate, correct the analysis detail: one of the two items appeared to be a mis-analysis of the clerk's expenses as a staff cost, which would impact on the Annual Return detail, albeit in a very small way.

We note that VAT has been reclaimed in line with the timing of previous reclaims covering the period from 21st November 2015 to 30th November 2016: whilst not a problem, for the sake of tidiness, we suggest that in future reclaims be made either half yearly to 30th September and 31st March or in line with the financial year-end if done annually.

- R2. Consideration should be given to reimplementation of the certification stamp in order to clarify detail on each invoice approved for payment.*
- R3. In order to simplify identification of and accounting for VAT, reclaims should be submitted either based on the financial year or, more ideally, at the half-year and financial year-end.*

Assessment and Management of Risk

We have previously recorded that the Council had developed a detailed document identifying potential areas of risk which was subject to annual review, update where appropriate, and re-adoption. We are pleased to note that the document has again been reviewed and re-adopted during 2016-17 at the May 2016 Council meeting.

In discussion with the Clerk, we understand that, as is the case with many clerks she has experienced some difficulties in tracking down relevant items of legislation. Whilst not directly related to that, we draw her and members' attention to the existence of detailed risk management software designed specifically for this tier of local government – "The Local Council Risk System (LCRS)", which is also used by many of our clients.

This software is available over the internet from DMH Solutions at a cost of around £100 plus VAT) and is a suitable tool to assist in the more detailed assessment of risks by the Council. The software provides a detailed assessment of potentially some 500 individual risks over 50 areas, many of which will not be relevant to the every Council, together with generating various checklists on insurance cover, health and safety, together with Action Plans of any areas where risks are assessed as medium or higher. Of salient relevance to the Clerk's expressed comments on identifying relevant legislation, the software includes comprehensive detail and cross--referencing to all legislation affecting each of the individual risks.

The Council's insurance cover is arranged with Zurich Municipal: we have reviewed the renewal schedule noting that Employer's and Public Liability cover are each in place at £10million, with Hirer's liability at £2 million and, as identified by us previously, Fidelity Guarantee cover at

£25,000. Apart from allotments, the Council has no facilities available for hire to the general public: consequently, we question the need for Hirer's Liability cover. Also, as indicated previously, Fidelity Guarantee cover remains marginally below the Audit Commission guideline of a half-year's precept plus year-end cash balances (i.e. circa £29,500).

Conclusions and recommendations

Overall, we consider that the Council has sound procedures in place to manage risk, although consideration could usefully be given to the acquisition of the LCRS software in order to further strengthen the process and provide detailed and effective cross-referencing to all extant legislation.

R4. The Council should investigate and ensure that a sound need exists for retention of Hirer's Liability insurance cover and also to increasing the level of fidelity guarantee cover in line with the former Audit Commission's guideline.

R5. Consideration should also be given to acquisition of the LCRS software to further strengthen the risk management process and provide more detailed and effective cross-referencing to extant legislation.

Budgetary Control and Reserves

The Council's minutes, together with the detailed supporting papers provided to the Council, indicate that members have given due and proper consideration to the budget requirement for 2017-18 formally agreeing and adopting the year's precept at £18,000 with no Support Grant being payable in the year by Wiltshire Council.

We have reviewed the year-end budget outturn for 2016-17 with no areas of significant variance identified other than in relation to staff costs, which have been explained appropriately. Overall payments have exceeded the year's approved budget by marginally in excess of £200 (less than 1%) whilst income has exceeded budget by £5,400 (30%) largely as a result of unbudgeted additional funding for website development in relation to The Transparency Code (£950) and the Fun Day (2,400): we note that the latter accounted for £2,500 of seemingly unbudgeted expenditure, which, if removed, would result in an actual underspend of the approved budget.

We note that the funding and expenditure on the Fun Day resulted from moneys granted by the Pewsey Area Board on behalf of a local resident who organised the event: we also note that further grants will be received in future for the Neighbourhood Development Plan Group and suggest that, in order to reduce the possible impact of higher external audit fees with a higher turnover and also to ensure independence from such events / projects, unless specifically running them, funds should ideally be deposited in separate, non-Council managed bank accounts.

Overall reserves have decreased during the year to £21,900 from £27,200 at the start of the financial year. We made comment in our 2014-15 report that we considered the retained balance high when compared to the annual level of spending with no earmarked reserves apparently in existence and this now appears to have been addressed appropriately.

Conclusions and recommendation

Whilst no significant areas of concern arise in this area, we consider that the Council should carefully consider its position in relation to any “one-off” funding, also in relation to the Neighbourhood Development Plan, with funds ideally deposited in a separate bank account.

Additionally, if the Council is not directly managing such projects, the Council should consider whether or not they should either retain or become involved in controlling those funds.

R6. The Council should ensure that the receipt and management of non Council specific events, projects or schemes funding is considered carefully especially in relation to any potential legal implications.

Review of Income

The Council receives, in addition to the annual precept, income from allotment rents, small amounts of bank interest, VAT refund, occasional grants and donations. As indicated in the opening section of this report, we have reviewed the bank statements for the year, agreeing them to the cashbook entries in full.

We have examined the allotment rents Excel workbook noting that the heading dates appear confusing with the “all details” spreadsheet referring to 2015-16, although judging by the tenancy start dates as recorded, they do apply to 2016-17 with the total rents receivable recorded as £1,125.00. Conversely the “Record of payments 2016” spreadsheet identifies total income of £1,218.00, whilst the main accounting cashbook identifies income of £1,242.00 for the 2016-17 financial year. The Excel workbook also includes a map of the allotment plots identifying names of tenants: however, comparison of that detail with the other spreadsheet records throws up a number of disparities.

We acknowledge that the bulk of allotment rental income arose prior to appointment of the new Clerk, but urge that appropriate action is taken in future years to ensure consistency between the various accounting records and map in order to ensure that a clear audit trail exists allowing for effective verification of the income due and received.

Conclusions and recommendations

The records maintained identifying income receivable for allotments and its physical receipt should be improved to identify, ideally in plot reference number order, the tenants’ names, amount receivable (based on plot size), date of actual receipt and amount received. With relatively few bankings occurring the spreadsheet could also identify, with the use of a separate column for each deposit in the Council’s bank, a cross reference to the amount deposited.

Where allotment receipts include deposits, presumably for keys, these should be identified in a separate column as at present, in order to provide a control record of deposits received.

Furthermore, as these are refundable deposits, they should strictly be regarded as a liability in the year-end Accounts: however, as the Council's Annual Return data is prepared on a Receipts and Payments basis, this does not apply at present.

R7. *The Clerk should ensure that appropriate and consistent records identifying allotment tenants are maintained with total income in each financial year agreeing in the various records.*

Petty Cash Account

The Council does not operate a petty cash account. Any out-of-pocket expenses incurred by the clerk in connection with her work for the council are reclaimed periodically and paid by separate cheques, which are minuted and approved as with ordinary trade invoices.

Salaries and Wages

In examining the Council's payroll function, we aim to confirm that extant legislation is being appropriately observed as regards adherence to the Employee Rights Act 1998 and the requirements of HM Revenues and Customs (HMRC) legislation as regards the deduction and payment over of income tax and NI contributions.

The Council only employs the Clerk, a new incumbent being appointed with effect from 1st August 2016. We have examined her contract of employment, which details her point on the national salary scale and also her basic weekly working hours, agreeing the basic monthly salary in payment to that document. No tax or NI contributions are payable as her salary is below the thresholds in each case. Consequently, we have agreed the amount of net salary paid to her each month.

We are pleased to report that no issues have arisen from our testing of payments made to the new Clerk during her time in office, noting that documentation relating to her predecessor is not available other than in the form of typed statements identifying the salary claimed by her. Consequently, we have been unable to ascertain whether or not any tax or NI liability applied and, if it did, that she has declared her earnings to HMRC.

Conclusions

We are pleased to record that no significant issues have been identified in this area this year: we understand that the new Clerk has established that no outstanding tax or NI liability exists in relation to the former Clerk.

Asset Registers

The Governance and Accountability Manual requires all councils to maintain a record of all assets owned. We are aware from previous experience and from documentation provided by the Clerk that a spreadsheet record has been maintained previously. However, the detail provided only comes up to 2014-15 and we note that detail of the assets acquired during 2015-16 do not

appear to have been added to the register as yet, also noting that the asset value recorded in the 2015-16 Annual Return remained unchanged from that in the 2014-15 Return.

As advised previously, the Annual Return reporting arrangements in respect of asset values were amended in 2009-10, now requiring that asset values in the Annual Return are reported at purchase cost or, where that value is unknown at the previous year's Return level uplifted or decreased to reflect the acquisition of any new assets or disposals.

We have discussed the position with the current Clerk, who has agreed to update the asset register for acquisitions in 2015-16 totalling £1,338 and those in 2016-17 totalling £375, with the revised value to be reported in the 2016-17 Return.

Conclusions

We do not consider that any formal comment or recommendation is required in this area on the basis of the Clerk's agreement to update the asset register and ensure that the value of the 2015-16 and 2016-17 asset acquisitions are recorded appropriately with their value (net of VAT) added to the 2015-16 Annual Return recorded value for entry in the 2016-17 Annual Return resulting in a value of £58,804 to be recorded at Box 9, Section 2 of the 2016-17 Annual Return..

Investments and Loans

The Council does not hold any long-term investments or loans warranting disclosure in the Annual Return.

Statement of Accounts and Annual Return

Recent local government legislation is aimed at increasing the awareness of the public and openness in the management of public finances. The Annual Return provides the basis for the external auditor's certificate, and, given the limited information contained in Section 2 of the Return, it is considered good practice for Councils to continue to produce a more detailed statement setting out in more detail the Council's financial transactions during any given year. We are pleased to note that the new Clerk has also prepared an additional detailed Statement of Accounts, the content of which we have agreed to the underlying cashbook.

We have also checked and agreed the content of the financial information presented in Section 2 of the Annual Return by reference to the cashbook and other supporting records, also taking account of the need to reflect the value of assets acquired in 2015-16 in the Annual Return.

Conclusions

We have duly signed-off the Internal Audit Certificate in the 2016-17 the Annual Return assigning positive assurances in each relevant area with one or two caveats in relation to issues identified in the preceding sections of this report.

Action Plan

Rec. No.	Recommendation	Response
Review of Corporate Governance		
R1	The Council should review Standing Orders and Financial Regulations in due course, ensuring that they more closely reflect the NALC model documents and take account of relatively recent legislative changes.	
Review of Payments and VAT		
R2	Consideration should be given to reimplementation of the certification stamp in order to clarify detail on each invoice approved for payment.	
R3	In order to simplify identification of and accounting for VAT, reclaims should be submitted either based on the financial year or, more ideally, at the half-year and financial year-end.	
Assessment and Management of Risks		
R4	The Council should investigate and ensure that a sound need exists for retention of Hirer's Liability insurance cover and also to increasing the level of fidelity guarantee cover in line with the Audit Commission's guideline.	
R5	Consideration should also be given to acquisition of the LCRS software to further strengthen the risk management process and provide more detailed and effective cross-referencing to extant legislation.	
Budgetary Controls and Reserves		
R6	The Council should ensure that the receipt and management of non Council specific events, projects or schemes funding is considered carefully especially in relation to any potential legal implications.	
Review of Income		
R7	The Clerk should ensure that appropriate and consistent records identifying allotment tenants are maintained with total income in each financial year agreeing in the various records.	